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MEMORANDUM

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TO: Docket Control

FROM: Ernest *EJ* Johnson  
Director  
Utilities Division

2008 SEP 30 P 3: 28

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: September 30, 2008

RE: **SUPPLEMENTAL STAFF REPORT – ADDENDUM TO RIDGELINE WATER COMPANY, L.L.C.’S APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY DOCKET NO. W-20589A-08-0173**

Attached is the Supplemental Staff Report for Ridgeline Water Company, L.L.C.’s application for a Certificate of Convenience and Necessity to provide water service. Staff is recommending issuance of an Order Preliminary.

EGJ:KMS:red

Originator: Kiana M. Sears

Arizona Corporation Commission  
DOCKETED

SEP 30 2008

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Docket No. W-20589A-08-0173

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**SUPPLEMENTARY STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**RIDGELINE WATER COMPANY, L.L.C.  
DOCKET NO. W-20589A-08-0173**

**APPLICATION FOR A CERTIFICATE OF  
CONVENIENCE & NECESSITY**

**SEPTEMBER 30, 2008**

## INTRODUCTION & BACKGROUND

On March 21, 2008, Ridgeline Water Company, L.L.C. ("Ridgeline" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for a Certificate of Convenience and Necessity ("CC&N"). Ridgeline is a wholly owned subsidiary of Pollux Properties, L.L.C ("Pollux" or "Parent Company"). On June 25, 2008, Staff submitted a memorandum recommending denial of Ridgeline's CC&N application.

Staff's recommendation was based on the Parent Company's 2007 unaudited balance sheet and income statement that reported total assets of approximately \$3.97 million, total liabilities of approximately \$3.96 million, total equity of \$15,639 and net income of \$703. These financial statements indicated that the Parent Company was highly leveraged and might not have had sufficient resources to fund any capital and/or operating cash shortages that Ridgeline might experience. Consequently, Staff concluded that Ridgeline did not have adequate financial capacity to provide the requested service.

On September 5, 2008, the Company filed a supplement to its CC&N application. The purpose of the supplement, among other things, was to address the Company's lack of financial capacity. Staff reviewed the material presented by the Company and Staff is now recommending that the Company be issued an Order Preliminary.

## STAFF'S RESPONSE

The following are the Company's comments to Staff's original Staff Report along with Staff's responses.

1. The Parent Company proposes to convert its debt which is currently in the form of Deeds of Trust to equity to alleviate the high level of debt in the Parent Company's capital structure. The Company states "Each of these investors has agreed to convert its current beneficial interest under a Deed of Trust into an equity ownership interest in Pollux."

### Staff's Response:

Staff agrees that this action would reduce the high level of debt in the Parent Company's capital structure.

2. To address the lack of financial resources needed to fund capital and/or operating cash shortages, the Company has asserted that "the investors of Pollux are prepared to (i) either directly invest as common equity owners of Ridgeline, or (ii) assist in raising the projected \$1.8 million in common equity for the water company once it has received a CC&N authorizing it to provide water service to Ridgeline Estates."

Staff's Response:

Staff has reviewed the Company's proposal. The Company did not provide the financial statements of its investors to support its claims that the investors had sufficient financial resources to provide the cash, should Ridgeline experience any capital and/or operating cash shortages. Therefore, Staff could not rely on the Company's assertion.

3. The Company requests that Staff's recommendation to condition approval of the CC&N upon the Company obtaining either a performance bond or an irrevocable sight draft letter of credit in the amount of \$250,000 be withdrawn.

Staff's Response:

Staff continues to recommend that approval of the CC&N be conditioned upon the Company obtaining either a performance bond or an irrevocable sight draft letter of credit in the amount of \$250,000 as discussed in the original Staff Report.

4. The Company requests that Staff's recommendation to condition approval of the CC&N upon the Company obtaining a capital structure of 0.00 percent debt, 30.00 percent AIAC/CIAC, and 70.00 percent equity by year five be withdrawn.

Staff's Response:

Staff continues to recommend that approval of the CC&N be conditioned upon the Company obtaining a capital structure of 0.00 percent debt, 30.00 percent AIAC/CIAC, and 70.00 percent equity by year five as discussed in the original Staff Report.

**STAFF'S CC&N RECOMMENDATIONS**

Staff recommends the Commission issue an Order Preliminary to Ridgeline Water Company, L.L.C. for a CC&N for water service within portions of Pima County, Arizona subject to compliance with the following conditions:

1. That the Company files with Docket Control, a copy of the Approval to Construct issued by Pima Department of Environmental Quality for water system facilities needed to serve the Ridgeline Estates development within three years of the effective date of the decision granting an Order Preliminary.
2. That the Company be required to obtain a performance bond or irrevocable sight draft letter of credit for \$250,000, before the Company serves its first customer and file evidence of such bond or irrevocable sight draft letter of credit in Docket Control as a compliance item in this docket.

3. That the Company submit documentation demonstrating the transaction to convert the debt to equity has taken place as discussed in item No. 1 under STAFF'S RESPONSE above.
4. That Ridgeline files with Docket Control, as a compliance in this docket, a copy of the Developer's Certificate of Assured Water Supply, for the area being requested, within one year after the effective date of the decision issuing a CC&N in this case.
5. That the Company adopt Staff's typical and customary depreciation rates in the accounts listed in Table A of the Engineering Report.
6. That the Company adopt Staff's recommended service line and meter installation charges as delineated in Table B of the Engineering Report.
7. That the Company file a revised curtailment tariff with Docket Control, as a compliance item in this same docket, within 3 years after the effective date of the decision granting the Order Preliminary for the review and certification of Staff. Staff further recommends that this tariff includes a restriction for operation of a standpipe in conformance with the sample tariff found on the Commission's web site at [www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf](http://www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf)
8. That the Company file a backflow prevention tariff with Docket Control, as a compliance item in this same docket, within 3 years after the effective date of the decision granting an Order Preliminary for the review and certification of Staff. Staff further recommends that the tariff shall generally conform to the sample tariff found posted on the Commission's website at [www.azcc.gov/divisions/utilities/forms/crossconnectbackflow.pdf](http://www.azcc.gov/divisions/utilities/forms/crossconnectbackflow.pdf). Staff recognizes that the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.
9. That approval of Ridgeline's CC&N be made conditional upon Ridgeline obtaining Staff's recommended capital structure by the end of the fifth year of operation.
10. Approval of the Staff recommended rates and charges as shown in Schedule CSB-W5 in the original Staff Report.
11. That Ridgeline be ordered to notify the Commission, through Docket Control, within 15 days of providing services to its first customers.

12. That Ridgeline be required to file a rate application no later than six months following the fifth anniversary of the date the Company begins providing service to its first customer.
13. That Ridgeline be required to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts for Water and Wastewater Utilities.
14. After Ridgeline has complied with the above Requirements Nos. 1, 3, 7, and 8. Ridgeline shall make a filing stating so. Within 30 days of this filing, Staff shall file a response. The Commission should schedule this item for a vote to grant the CC&N as soon as possible after Staff's filing confirms Ridgeline's compliance with Requirement Nos. 1, 3, 7, and 8. If Ridgeline does not comply with any one of the Requirement Nos. 1, 3, 7, and 8 within the time specified, the Order Preliminary shall be null and void, and this docket shall be closed.